NOTES

WASHINGTON NOTES

EDUCATION IN ACCOUNTING

The Federal Trade Commission has rendered a service in publishing two monographs entitled *Fundamentals of a Cost System for Manufacturers* and *A System of Accounting for Retail Merchants.* The effort of the Commission in so doing is to diffuse a better knowledge of the elements of accounting among those who should be informed on this subject in order to place their businesses upon sound foundations. In its investigations thus far, the Commission has found that a large number of manufacturers and retail merchants, particularly the smaller ones, have no accurate knowledge of the costs of conducting business, and hence are unable to price their goods intelligently. It is believed that there must be decided improvement in this respect before there can be any substantial reduction in business failures and before competition can be adjusted upon a recognized footing.

There are in the minds of business men who have not installed cost systems a number of objections to taking the matter up. One of these is the feeling that exists in many quarters that a given business is unique and different from any other, and that no system could be devised which would give true costs. Unquestionably some lines of manufacture lend themselves more readily to the installation of a cost system than others, but it is also true that no line of manufacture is so complex that a system cannot be devised which will give reasonably accurate results. The most common objection is, however, found to be that of the cost of installation and the expense of operation. Many manufacturers are of the opinion that a cost system means an interminable amount of detail and calls for much extra assistance. Other business men are of the opinion that they do not need a cost system because they already know what their goods cost. They may, and a number of them do, have an approximate idea of what their goods cost, but in a large number of instances this supposed knowledge is based on foremen's guesses in advance as to the time necessary to do the work or on estimates of the time actually spent on the work. Formerly the necessity for the determination of true manufacturing costs was not so imperative as it is today. Margins

between cost and selling price in most lines were larger. Costs could be ignored except in a general way and a good return still be made on the investment; but today margins of profit in most lines of trade are very much narrower than formerly, and the necessity for the most efficient management and closest analysis is more pressing than ever before. It is necessary today for the business man's success that he know on what articles he is making a profit and on what he is incurring a loss. Competitive conditions are seriously disturbed where losses on one or more articles are recovered by profits on other articles. It is thus obvious, not only that a manufacturer should know the cost of each article he manufactures, but that he should see that every article manufactured bears its proper share of factory and general overhead costs.

The analysis of manufacturers' cost systems presented by the commission consists largely of a general discussion of the principal elements in factory charges, fixed expenses, and distribution of raw-material costs. At the close of the monograph there are given some sample accounts designed to show the outcome of a simple system of cost accounting, although it is recognized that in any given business it will be necessary to make many adaptations before the system will be specifically applicable. In the case of the retail merchant, the data furnished offer little more than a brief and compact analysis of elementary bookkeeping which may be of service to those merchants who maintain only an extremely simple system of accounting without any satisfactory double-entry or comparative method.

The purpose of the Commission in presenting such material as this to the business public is stated as follows:

> The Federal Trade Commission is urging manufacturers to give the subject of accurate costs the attention it deserves. It has found that unreliable costs of production and distribution cause a great deal of unfair competition and a heavy business death-rate.
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> While the claim is not made that a cost system will save a man from failure, the claim is made that a man who knows where he stands day by day is very much less likely to make a failure of his business than one who is directing his business by guesswork.

Undoubtedly the accounting ideas put forward by the Commission are generally sound, and its work may prove of service, not only to practical men, but also to students of accounting. The real problem for practical consideration will be that of inducing the rank and file of establishments to recognize the necessity of some such systematic organization of their accounting systems as is thus recommended to them.

THE DYESTUFFS CENSUS

The Department of Commerce has just issued through its Bureau of Foreign and Domestic Commerce a so-called census of dyestuffs (Special Agents Series, No. 121). This "census" is a general discussion of the artificial dyestuffs used in the United States, including a survey of the quantity and value of foreign imports, and of the amount of domestic products during the year 1913-14. The occasion for this census is found in the industrial development due to the European war. Early in 1915 a virtual embargo came into effect whereby German dyes were shut off from the United States. A good while before that time, however, the relatively small supply of colors from England, France, Belgium, and Holland had practically ceased, and the somewhat more important source in Switzerland was threatened. There ensued an effort to build up a dyestuffs industry in the United States in order to provide, from domestic raw material, colors which would take the place of those previously almost exclusively imported from abroad. Information as to consumption must, however, be had, and first of all it was necessary to decide upon the method of gathering data. It had been suggested by some, who had early recognized the desirability of such a "census," that the only method available for securing the needed data was to appeal to all consumers of artificial colors for their co-operation, and it was thought that a ready response would be given to circular requests for detailed information regarding the annual consumption of coal-tar dyes by each user. It was further proposed, in order to overcome the customary repugnance of manufacturers to communicating facts of this nature, that the replies should be sent to some central financial institution, which would guarantee secrecy in collating the numerical information thus gathered.

A careful analysis of the problem showed that any such method of collecting data was impracticable, since it would be impossible to secure a complete list of all users of dyestuffs in scores of trades and manufacturing branches. Instead of this plan, therefore, it was decided to use the data based upon the imports of artificial colors into this country during the twelve months ending June 30, 1914—a month before the outbreak of the present war. The remaining tenth of the consumption has been covered by the returns of the Bureau of the Census for the domestic coal-tar dyestuff industry, based upon the production in the calendar year 1914. No serious interference in the output of American colors occurred until after the beginning of 1915. With the co-operation of the Secretary of the Treasury, all the invoices for the year in question

were sent by the collectors of customs at the various ports of entry to a central point, where the essential data were transcribed. These included weight, value, and price, some 37,500 different transcripts, each covering these three items, being necessary. These entries are found under 5,674 heads, each representing a distinct commercial designation, although it must not be inferred that this number of different colors has been taken into consideration. Many standard dyes are manufactured by several firms in the same country, as well as in various countries. Frequently some or all of the competing manufacturers use entirely different trade names for identical wares.

The result of the investigation now in hand is to give the information needed by the organizers of a new national color industry, who must know with a certain approximation to accuracy what is the annual consumption of each primary dye and how much of each minor modification is employed. Most of this volume is, therefore, primarily statistical and chemical, but it will have a large value as affording a fairly complete and thorough survey of the detailed materials used by those industries which employ colors in their manufacture. Such an outline is of fully as much interest to the chemist as to the economist.

The character of the problem is stated by the compiler of this census as follows:

> It is now generally recognized that any intelligent effort to build up a comprehensive, self-contained American coal-tar chemical industry must rest upon the solid foundations of accurate statistical data concerning the American market for artificial colors. In no other way can the creators of such an industry avoid duplication, overlapping, waste, and blundering, tentative struggles to adjust productive mechanism to a vague, indefinite demand. Without such fundamental data the future industry will be heavily handicapped by permanent overhead charges, accumulated as the result of being forced to feel its way in the dark, chemically, mechanically, and commercially.

FINANCING FOREIGN TRADE

The foreign trade of the United States has now reached what is probably an unprecedented stage in its development, owing to the entire reversal of the country's position. Up to the beginning of the European war the United States was continuously and habitually a debtor nation; since that time it has been gradually becoming a creditor nation. It has taken back quantities of its own securities held in Europe, estimated by various authorities at from $1,500,000,000 to $2,000,000,000, and it has absorbed about $2,000,000,000 in securities of foreign governments, the

major part of which represents money or goods furnished to the belligerent nations of Europe. The financing that has taken place in the United States has been of several distinct kinds. So-called short-term bonds without special security were placed on the market to the amount of more than $500,000,000, and were absorbed by the banks of the country. Later, other issues protected by stocks and bonds of American issue or origin, owned by European investors who permitted them to be deposited as collateral, were issued and sold. In both these loans the rate of interest which had to be paid was quite substantial, ranging from 5 per cent to more than 6 per cent, so that it has appeared to financiers that considerations of economy would dictate some new method of financing. This new method has been found in the issue of very short-term obligations. So-called "acceptances" have been placed on the market in considerable quantities during the past year, and within the past few weeks announcement was made that a large quantity of Treasury bills running from thirty days to six months would likewise be sold. Athough these two classes of securities had the appearance of real short-term obligations, neither of them was, in fact, of that character. The acceptances were actually placed in order to pay for goods exported, but inasmuch as the recipients of the goods bought were not in position to pay for them and had to stipulate a series of renewals of the acceptances the transaction was really a sale of goods on credit for periods running in some cases from a year and a half to two years or even longer. In the same way the Treasury bills were payable at maturity, but, as was well known, could be paid in the aggregate only by the issue of new Treasury bills, so that they in reality constituted a floating loan of indefinite maturity.

The result of this situation has been action by the Federal Reserve Board designed to caution banks and investors against taking these bills and acceptances under the assumption that they were in fact short-term, liquid obligations readily collectible and payable at maturity. The Federal Reserve Board has, of course, power to direct federal reserve banks not to place their funds either directly or indirectly at the service of the issuers of such obligations by defining eligible paper in such a way as to prevent the reserve banks from becoming involved with notes of this description. It has no power over national banks so long as they comply with the specific provisions of the law in regard to the maintenance of reserve and the like. Its authority in the matter rests largely in the influence that must be attributed to its orders for the bearing they will have upon conditions under which banks which need funds may

obtain discounts should they require to do so in the future. This fact gives its orders a broad effect that they otherwise probably could not expect. The issuance of the statement of November 27, in which the whole situation as to foreign obligations was discussed by the Board, therefore constitutes a new departure in financial organization, inasmuch as it suggests the vesting of a power of leadership in the Board similar to that which has been exercised in the past by the reserve banking institutions of Europe.

It should be noted that there is nothing in the statement issued by the Board that prevents the placing of foreign loans in the United States, or that suggests that such notes are not sound. Not only does the Board disclaim any intention of suggesting unsoundness, but it makes perfectly plain that its criticism upon foreign loan operations refers primarily to their character as bank investments. The obvious suggestion thus is that foreign borrowers who need funds should obtain them by an issue of long-term securities, such securities to be assigned to investors—whether banks or others—who are willing and able to absorb them with the intention of continuing to hold them. If the advice of the Board is followed, therefore, European nations will be cut off from the extended use in this country through sales to banks of a new war finance device—the short-term Treasury bill, or acceptance, continuously renewed from one maturity to another.